

Message Text

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PASS AGRICULTURE

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SUBJ: EC AGRICULTURE MINISTERS' PRICE PACKAGE AND
GREEN KRONE DEVALUATION

1. SUMMARY: THE DANISH GOVERNMENT IS QUITE SATISFIED WITH
OUTCOME OF THE AGRICULTURAL PRICE NEGOTIATIONS, WHICH CONTAIN
GREATER IMPROVEMENTS FOR DANISH FARMERS THAN ANTICIPATED IN
THE COMMISSION'S ORIGINAL PROPOSALS. FARM ORGANIZATIONS
REGRET PUBLICLY THAT APPROXIMATE 4 PERCENT INCREASE FOR DENMARK
DOES NOT FULLY COMPENSATE FOR COST DEVELOPMENTS BUT POINT TO
POSITIVE ELEMENTS, SUCH AS THE REDUCTION OF GERMAN MONETARY
COMPENSATORY AMOUNTS (CA'S). IN REALITY, TOTAL INCREASE IN DANISH
MINIMUM PRICES IS CLOSE TO COPA'S 7.4 PERCENT DEMAND AS GREEN
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KRONE DEVALUATION EFFECTIVE APRIL 6 RESULTED IN 3.1 PERCENT PRICE
HIKE. CONSUMERS APPEAR TO BE ACCEPTING INCREASED FOOD PRICES
CALMLY, WHICH IS SURPRISING CONSIDERING RECENT GOVERNMENT
ACTION TO HOLD WAGE INCREASES TO A MAXIMUM 6 PERCENT
ANNUALLY FOR NEXT TWO YEARS. END SUMMARY.

2. THE AVERAGE INCREASE IN MINIMUM FARM PRICES IN DENMARK

AS CONSEQUENCE OF THE APRIL 25-26 AGREEMENT OF THE EC AGRICULTURAL MINISTERS WILL BE SLIGHTLY BELOW 4 PERCENT. ADDED TO THE 3.1 PERCENT PRICE INCREASE RESULTING FROM THE APRIL 6 GREEN KRONE DEVALUATION, THE COMBINED RESULT FOR DANISH AGRICULTURE IS CLOSE TO THE 7.4 PERCENT INCREASE DEMANDED BY COPA (ALTHOUGH SOME OF THE INCREASE WILL BE OFFSET BY HIGHER IMPORT COSTS FOR FARMERS). TAKING INTO ACCOUNT THE FIRST DEVALUATION OF THE GREEN KRONE LAST OCTOBER, GURANTEED DANISH FARM PRICES HAVE INCREASED 11.1 PERCENT SINCE THE SETTING OF 1976/77 PRICES A YEAR AGO.

3. THE GOVERNMENT ESTIMATES THE DIRECT GAIN TO DANISH FARMERS FROM THE 1977/78 PRICE PACKAGE AT 350 MILLION KRONER (\$58 MILLION) IN INCREASED PRODUCTION VALUE ON ANNUAL BASIS. THE DANISH ECONOMY AS A WHOLE WILL BENEFIT FROM AN ANNUAL GAIN IN FARM EXPORT EARNINGS OF 250 MILLION KRONER (\$42 MILLION) AS A CONSEQUENCE OF THE PRICE AGREEMENT. WHEN ADDED TO THE ESTIMATED 300 MILLION KRONER GAIN FROM GREEN KRONE DEVALUATION, NET EXPORT EARNINGS (AFTER DEDUCTING HIGHER COSTS OF IMPORTED FARM INPUT FACTORS RESULTING FROM THE RECENT KRONE DEVALUATION VIS-A-VIS OTHER SNAKE CURRENCIES) WILL BENEFIT TO A TOTAL OF 550 MILLION KRONER (\$92 MILLION) ANNUALLY. ON NEGATIVE SIDE, CONSUMER FOOD PRICES ON AVERAGE WILL INCREASE ABOUT ONE PERCENT WITH MAJOR EFFECT ON BUTTER PRICE, WHICH WILL INCREASE 1.25 KRONER/KILO (ABOUT 10 CENTS/LB.) AS A RESULT OF BOTH ACTIONS.

4. GOVERNMENT BELIEVES RESULT OF FARM PRICE AGREEMENT WAS VERY FAVORABLE FOR DENMARK AND CONTAINED GREATER GAINS THAN WOULD HAVE RESULTED FROM COMMISSION'S ORIGINAL PROPOSAL. ALTHOUGH UNCLASSIFIED

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FARM LEADERS PUBLICLY REGRET THAT AGREEMENT DID NOT FULLY COMPENSAGE FOR COST INCREASES, THEY ARE PLEASED THAT CAP ONCE MORE WAS PRESERVED AND FEEL OPTIMISTIC THAT BREATHING SPACE ACHIEVED WILL LEAD TO A MORE PERMANENT SOLUTION OF MONETARY AND STRUCTURAL PROBLEMS. THEY FEEL ENCOURAGED BY GUNDELACHS STATEMENTS THAT COMMISSION INTENDS TO PRESS FORWARD ON MCA ADJUSTMENT OF THE GERMAN GREEN MARK WITH CONSEQUENT 182. PERCENT REDUCTION IN MCA IMPORT LEVIES ON DANISH PRODUCTS AND DECREASE IN GERMAN MCA EXPORT SUBSIDIES TO UK. DANES ARE ALSO PLEASED THAT 5 PERCENT INCREASE IN PIGMEAT BASE PRICE EXCEEDS CORRESPONDING INCREASE FOR FEED GRAINS. (THERE WILL BE NO IMMEDIATE BENEFIT TO HOG PRODUCERS MARKET PRICES ARE HIGHER.) THERE IS ALSO SATISFACTION THAT UK WAS NOT SUCCESSFUL IN CHANGING BASIS FOR CALCULATING MCA'S ON PIGMEAT (AS WELL AS DISSAPOINTMENT THAT THE UK NATIONAL SUBSIDY TO PORT PRODUCERS IS CONTINUING).

5. COMMENT: THE GOVERNMENT HAS THUS FAR MADE NO COMMITMENT ON GRANTING A CONSUMER SUBSIDY ON BUTTER (DENMARK HAS NOT TO

DATE UTILIZED THIS POSSIBILITY UNDER THE EXISTING EC PROGRAM).
CONTINUED REFUSAL MAY BE DIFFICULT IN VIEW OF DENMARK CLAIMING
RESPONSIBILITY FOR MAKING PROPOSAL RE SUBSIDIZED INTERVENTION
SALES THROUGHOUT EC TO BENEFIT CONSUMERS AND REDUCE BUTTER
SURPLUS WITHOUT RESORTING TO CONTROVERSIAL EAST EUROPEAN SALES.
ALTHOUGH DANES CONSIDER AGREEMENT RE UK SUBSIDIES IN EXPENSIVE
FOR FEOGA, CONSIDERABLE SYMPATHY IS FELT FOR UK PROBLEMS. ALL
IN ALL, THE DANES ARE WELL SATISFIED WITH THE OUTCOME OF THE
NEGOTIATIONS.
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